

**Memphis and Shelby County  
Community Services Agency**

**For the Year Ended  
June 30, 2002**

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Financial/compliance audits of community services agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
For more information about the Comptroller of the Treasury, please visit our Web site at  
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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

April 8, 2004

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
Memphis and Shelby County Community Services Agency  
1407 Union Avenue, Suite 1300  
Memphis, Tennessee 38104

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Memphis and Shelby County Community Services Agency for the year ended June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/th  
03/088

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Memphis and Shelby County Community Services Agency**  
For the Year Ended June 30, 2002

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

**Audit Report**  
**Memphis and Shelby County Community Services Agency**  
**For the Year Ended June 30, 2002**

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**TABLE OF CONTENTS**

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	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTION</b>		1
Post-Audit Authority		1
Background		1
<b>AUDIT SCOPE</b>		2
<b>OBJECTIVES OF THE AUDIT</b>		2
<b>PRIOR AUDIT FINDINGS</b>		2
<b>RESULTS OF THE AUDIT</b>		3
Audit Conclusions		3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		4
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		6
Management's Discussion and Analysis		8
Financial Statements		
Statement of Net Assets	A	13
Statement of Activities	B	14
Balance Sheet—General Fund	C	15
Statement of Revenues, Expenditures, and Changes in Fund Balance—General Fund	D	16
Notes to the Financial Statements		17
Required Supplementary Information		27

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## TABLE OF CONTENTS (CONT.)

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	<u>Exhibit</u>	<u>Page</u>
Schedule of Pension Funding Progress		27
Other Supplementary Information		28
Budgetary Comparison Schedule		28
<b>APPENDIX</b>		29
Board of Directors		29

# **Memphis and Shelby County Community Services Agency For the Year Ended June 30, 2002**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Memphis and Shelby County Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

### **BACKGROUND**

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The Memphis and Shelby County Community Services Agency’s administrative offices are in Memphis, Tennessee.

The governing body of the Memphis and Shelby County Community Services Agency is the board of directors. As of June 30, 2002, the board was composed of ten members. (See Appendix.) An executive committee, consisting of four board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2001, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2002. The Memphis and Shelby County Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Memphis and Shelby County Community Services Agency filed its report with the Department of Audit on March 12, 2003. A follow-up of all prior audit findings was conducted as part of the current audit.

The current audit disclosed that the agency has corrected previous audit findings concerning not following proper financial procedures, and not performing bank reconciliations timely and according to procedure. The prior audit report also contained findings concerning the



CSA's fiscal agent relationship with the Department of Children's Services and the CSA's compliance with contract terms. While these findings were not completely resolved during the audit period, it appears that the agency had taken the steps necessary to resolve these findings.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the Memphis and Shelby County Community Services Agency's financial statements for the year ended June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Memphis and Shelby County Community Services Agency's financial statements.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
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**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

August 1, 2003

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Memphis and Shelby County Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, and have issued our report thereon dated August 1, 2003. As discussed in Note 12 to the financial statements, the Memphis and Shelby County Community Services Agency implemented Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Memphis and Shelby County Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan  
August 1, 2003  
Page 2

We did, however, note a less significant instance of noncompliance that we have reported to the agency's management in a separate letter.

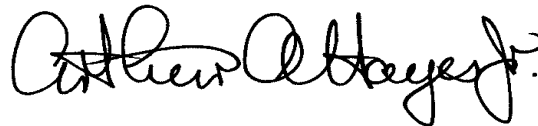
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Central Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/th



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
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**Independent Auditor's Report**

August 1, 2003

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities and the general fund of the Memphis and Shelby County Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, which collectively comprise the agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the agency's management. Our responsibility is to express opinions on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Memphis and Shelby County Community Services Agency as of June 30, 2002, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan  
August 1, 2003  
Page 2

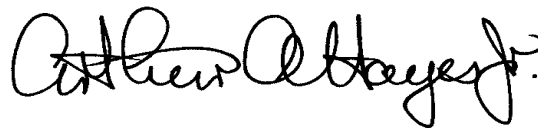
As discussed in Note 12 to the financial statements, the Memphis and Shelby County Community Services Agency adopted the provisions of Governmental Accounting Standards Board Statements 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. This resulted in changes to the format and content of the financial statements.

The management's discussion and analysis and the Schedule of Pension Funding Progress for Memphis and Shelby County Community Services Agency are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information on page 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2003, on our consideration of Memphis and Shelby County Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/th

## Memphis and Shelby County Community Services Agency

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents our discussion and analysis of the Memphis and Shelby County Community Services Agency's (MSCCSA) financial performance during the fiscal year ended June 30, 2002. Please read it in conjunction with the Memphis and Shelby County Community Services Agency's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

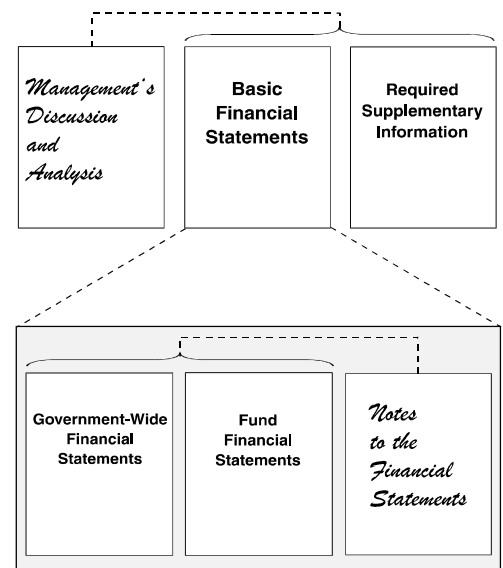
- The Memphis and Shelby County Community Services Agency's total net assets were \$1,104,766.70 at June 30; 2002.
- During the year, the Memphis and Shelby County Community Services Agency's expenses were \$7,379,669.70; this was \$378,517.91 less than the \$7,758,187.61 generated in revenues for governmental activities.
- The general fund reported a fund balance this year of \$1,192,928.91.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. There is an additional statement, which is not required, presented as supplementary information at the end of this report. The basic financial statements include two kinds of statements that present different views of the Memphis and Shelby County Community Services Agency:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the agency's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the agency's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

**Figure A-1. Required Components of the Memphis and Shelby County Community Services Agency's Financial Statements**



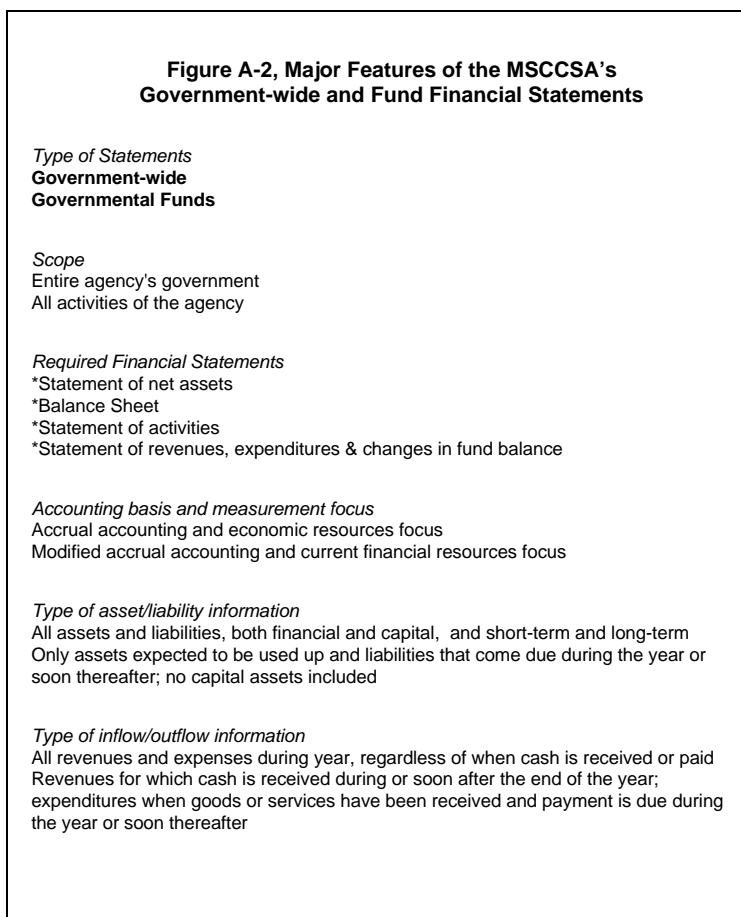
Summary



Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the agency’s financial statements, including the portion of the agency government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.



## Government-wide Statements

The government-wide statements report information about the agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the agency’s net assets and how they have changed. *Net assets*—the difference between the agency’s assets and liabilities—are one way to measure the agency’s financial health or position.

- Over time, increases or decreases in the agency’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the agency, you need to consider additional non-financial factors such as changes in the agency’s non-custodial role in the Department of Children’s Services.

The government-wide financial statements of the Memphis and Shelby County Community Services Agency include only one category, *Governmental Activities*. All of the agency’s services are included in

this category. Most of the agency's basic services are included here: help for children and families, staff development, health related services, and general administration. Grants finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Memphis and Shelby County Community Services Agency's general fund, not the agency as a whole. Funds are accounting devices that the MSCCSA uses to keep track of specific sources of funding and spending for particular purposes. The agency establishes funds to ensure and demonstrate compliance with finance-related legal requirements.

The Memphis and Shelby County Community Services Agency has one kind of fund:

*Governmental funds*—The agency's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the agency's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

### **FINANCIAL ANALYSIS OF THE MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY AS A WHOLE**

**Net assets.** The Memphis and Shelby County Community Services Agency's net assets were \$1,104,766.70 at June 30, 2002. (See Table A-1)

**Table A-1**  
**Net Assets**  
**Governmental Activities**

	<u><b>2002</b></u>
Current Assets	\$2,408,597.62
Capital Assets	<u>175,511.93</u>
<b>Total Assets</b>	<u><b>2,584,109.55</b></u>
Current Liabilities	1,215,668.71
Long-Term Liabilities	<u>263,674.14</u>
<b>Total Liabilities</b>	<u><b>1,479,342.85</b></u>
Net Assets	
Invested in Capital Assets, net of related debt	64,374.98
Unrestricted	<u>1,040,391.72</u>
<b>Total Net Assets</b>	<u><b>\$1,104,766.70</b></u>



Note: The agency did not restate its 2001 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.

**Changes in net assets.** The Memphis and Shelby County Community Services Agency's total revenues were \$7,758,187.61. A significant portion, 90 percent, of the agency's revenue comes from the State of Tennessee. Nine percent comes from TennCare Transportation, while only 1% from other local grants and interest revenue on LGIP account. The total cost of all programs and services was \$7,379,669.70; 80% of these costs are directly related to Department of Children's Services Programs. The agency received a significant amount of additional funding for a new program started for the Department of Children's Services.

**2002**

**Revenues**

Program Revenues

Department of Children's Services	\$ 5,901,109.41
Department of Health	703,657.88
Local Grants and Contracts	70,849.00
TennCare Transportation	725,505.28

General Revenues

Payment from the State of Tennessee	344,062.74
Interest	13,003.30

<b>Total Revenues</b>	<b>7,758,187.61</b>
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**Expenses**

Administration	337,735.56
Children and Family Services	2,699,243.55
Flexible Funding	381,454.51
Emergency Residential	39,122.98
Community Prevention Initiative	704,955.79
Family Support Services	2,780,825.90
TennCare Transportation	436,331.41

<b>Total Expenses</b>	<b>7,379,669.70</b>
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<b>Increase in Net Assets</b>	<b>378,517.91</b>
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<b>Beginning Net Assets</b>	<b>726,248.79</b>
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<b>Ending Net Assets</b>	<b>\$ 1,104,766.70</b>
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Note: The Memphis and Shelby County Community Services Agency did not restate its 2001 financial statements in this first year of implementation of GASB34. Comparative information will be provided in future years.

**FINANCIAL ANALYSIS OF THE MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY'S FUNDS**

Revenues from governmental fund types totaled \$7,758,187.61, an increase of almost 23% over the preceding year. The increase in governmental revenues is a result of non-custodial programs shifted completely to the agency. Additionally, revenues received through the TennCare Transportation

program are from Managed Care Organizations and Behavioral Health Organizations. These revenues go directly to the general fund to pay for the cost of the program and the administration with the remainder going to fund balance.

### **General Fund Budgetary Highlights**

Over the course of the year, the Memphis and Shelby County Community Services Agency revised its budget four times.

- Throughout the year, many staffing changes took place in the Department of Children's Services (DCS) programs. Thirteen positions were transferred to the state. The current number of positions funded by DCS is 105.
- Revenues were originally projected to be \$9,500,442. However, the final budgeted revenue was \$9,469,731. The difference between the original and final amounts is not considered significant.
- The agency's total revenue was projected to be \$9,469,731. However, actual revenue earned for the fiscal year was \$7,758,187.61. The agency earned about 77% of the projected revenue from DCS. Projected revenue from DCS was \$8,078,672 and the amount actually earned from DCS was \$6,245,172.15.

## **CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY**

### **Capital Assets**

At the end of 2002, the agency's leased assets were classified as a capital lease. Additional capital asset detail can be reviewed in the notes to the financial statements (Notes 3 and 6).

### **Compensated Absences**

The agency's liability for compensated absences can be reviewed for further details in the notes to the financial statements (Note 4).

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Tennessee Department of Children's Services, the main funding source for the agency, has been restructuring our role in the department. Currently, Memphis and Shelby County Community Services Agency works directly with the non-custodial population. Additionally, beginning in the fiscal year ending June 30, 2003, the agency has fiscal control over certain DCS custody related programs. This change will increase our budget with the department for the next fiscal year.

## **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our grantors, customers, and the citizens of the State of Tennessee with a general overview of the agency's finances and its use of the funds it receives. If you have any questions about this report or need additional information, contact the agency's Director of Fiscal Services, 1407 Union Avenue, Suite 1300, Memphis, TN 38104.

**Memphis and Shelby County Community Services Agency**  
**Statement of Net Assets**  
**June 30, 2002**

	Governmental Activities
<b>Assets</b>	
Cash (Note 2)	\$ 881,780.94
Accounts receivable	17,799.83
Due from the State of Tennessee	1,486,906.66
Prepaid items	22,110.19
Capital assets (Note 3):	
Equipment	337,459.17
Less accumulated depreciation	(161,947.24)
Total assets	<u>2,584,109.55</u>
<b>Liabilities</b>	
Accrued payroll, payroll taxes, and benefits	135,040.10
Accounts payable	432,286.66
Checks payable	15,828.68
Due to the State of Tennessee	632,513.27
Long-term liabilities:	
Portion due or payable within one year:	
Capital leases (Notes 4 and 6)	26,918.84
Compensated absences (Note 4)	118,634.45
Portion due or payable after one year:	
Capital leases (Notes 4 and 6)	84,218.11
Compensated absences (Note 4)	33,902.74
Total liabilities	<u>1,479,342.85</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	64,374.98
Unrestricted	1,040,391.72
Total net assets	<u>\$ 1,104,766.70</u>

The notes to the financial statements are an integral part of this statement.

**Memphis and Shelby County Community Services Agency**  
**Statement of Activities**  
**For the Year Ended June 30, 2002**

<b>Programs</b>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental Activities:</b>				
Administration	\$ 337,735.56	\$ -	\$ -	\$ (337,735.56)
Children and Family Services	2,699,243.55	-	2,697,355.44	(1,888.11)
Family Support Services	2,780,825.90	-	2,783,176.48	2,350.58
Flexible Funding	381,454.51	-	381,454.51	-
Emergency Residential	39,122.98	-	39,122.98	-
TennCare Transportation	436,331.41	725,505.28	-	289,173.87
Community Prevention Initiative	704,955.79	-	774,506.88	69,551.09
Total	<u>\$ 7,379,669.70</u>	<u>\$ 725,505.28</u>	<u>\$ 6,675,616.29</u>	<u>21,451.87</u>
General revenues:				
Payment from the State of Tennessee				344,062.74
Unrestricted investment earnings				13,003.30
Total general revenues				<u>357,066.04</u>
Change in net assets				378,517.91
Net assets - beginning				726,248.79
Net assets - ending				<u>\$ 1,104,766.70</u>

The notes to the financial statements are an integral part of this statement.

**Memphis and Shelby County Community Services Agency**  
**Balance Sheet**  
**General Fund**  
**June 30, 2002**

**Assets**

Cash (Note 2)	\$ 881,780.94
Accounts receivable	17,799.83
Due from the State of Tennessee	1,486,906.66
Prepaid items	22,110.19
Total assets	<u>\$ 2,408,597.62</u>

**Liabilities and Fund Balance**

## Liabilities:

Accrued payroll, payroll taxes, and benefits	\$ 135,040.10
Accounts payable	432,286.66
Checks payable	15,828.68
Due to the State of Tennessee	632,513.27
Total liabilities	<u>1,215,668.71</u>

## Fund balance:

Reserved for prepaid items	22,110.19
Unreserved	1,170,818.72
Total fund balance	<u>1,192,928.91</u>
Total liabilities and fund balance	<u>\$ 2,408,597.62</u>

**Reconciliation of the general fund balance sheet to the statement  
of net assets:**

Total fund balance	\$ 1,192,928.91
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Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the general fund. 175,511.93

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the general fund. Long-term liabilities at year-end consist of:

Capital leases payable	(111,136.95)
Compensated absences	<u>(152,537.19)</u>
Total net assets	<u>\$ 1,104,766.70</u>

The notes to the financial statements are an integral part of this statement.

**Memphis and Shelby County Community Services Agency**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**General Fund**  
**For the Year Ended June 30, 2002**

<b>Revenues</b>	
State grants and contracts	\$ 6,948,830.03
Local grants and contracts	70,849.00
TennCare Transportation contracts	725,505.28
Interest	13,003.30
Total revenues	<u>7,758,187.61</u>
<b>Expenditures</b>	
Administration	334,235.13
Children and Family Services	2,743,485.42
Family Support Services	2,829,306.48
Flexible Funding	381,454.51
Emergency Residential	39,122.98
TennCare Transportation	445,621.69
Community Prevention Initiative	703,657.88
Total expenditures	<u>7,476,884.09</u>
Excess of revenues over expenditures	<u>281,303.52</u>
<b>Other Financing Source</b>	
Capital lease	92,260.00
Total other financing source	<u>92,260.00</u>
Net change in fund balance	373,563.52
Fund balance - July 1, 2001	819,365.39
Fund balance - June 30, 2002	<u>\$ 1,192,928.91</u>

**Reconciliation of the general fund statement of revenues, expenditures,  
and changes in fund balance to the statement of activities:**

Net change in fund balance	\$ 373,563.52
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Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the period. 100,473.81

Payments on capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. 16,715.84

Some capital assets acquired during the period were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (92,260.00)

The expense for compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds. (19,975.26)

**Changes in net assets of governmental activities** \$ 378,517.91

The notes to the financial statements are an integral part of this statement.

**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements**  
**June 30, 2002**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Title 37, Chapter 5, of *Tennessee Code Annotated*, established the CSA as “a political subdivision and instrumentality of the state.” The Memphis and Shelby County Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget). The CSA’s reporting entity does not include any component units.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The CSA’s basic financial statements consist of government-wide financial statements (the statement of net assets and the statement of activities) and fund financial statements (the balance sheet and the statement of revenues, expenditures, and changes in fund balance). The Memphis and Shelby County Community Services Agency does not have any proprietary or fiduciary funds, and its only governmental fund is the general fund.

The statement of net assets presents all of the CSA’s financial and capital resources including both short-term and long-term information. The statement of activities presents a comparison between the direct expenses and program revenues for each of the CSA’s programs. Direct expenses are those that are specifically associated with a program. Program revenues include (a) charges paid by the recipients for services provided by the program and (b) grants and contributions that are restricted to meeting the operational requirements of the program. Revenues that are not classified as program revenues are presented as general revenues.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are measurable and become available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues that the CSA earns by incurring obligations are recognized in the same period the obligations are recognized. All other revenue items are considered to be available if collected within 60 days after the end of the current period.

Expenditures are recorded when the related fund liability is incurred, except for compensated absences and capital lease principal and interest, which are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**Assets and Liabilities**

Cash

Cash reported in both the government-wide and the fund financial statements consists of petty cash, demand deposits, and deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The liquidity of the LGIP is sufficient to cover any withdrawal request by a participant.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements.

Capital Assets

Capital assets are defined by the CSA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capitalized assets are reported in the government-wide financial statements. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The CSA does not own any infrastructure. The costs



**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capitalized assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Equipment	5 years

**Checks Payable**

Checks payable represent the sum of checks written in excess of the Community Services Agency's checking account balance in both the government-wide and the fund financial statements.

**Compensated Absences**

It is the CSA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the CSA's policy is to pay this benefit only if the employee is sick or upon death. In the government-wide financial statements, the liability for all vacation pay is accrued when earned. In the fund financial statements, a liability for these amounts is reported only if they have matured, for example, because of employee resignations and retirements.

**Capital Leases**

A capital lease arrangement for the acquisition of a capital asset is recognized as a long-term obligation in the government-wide financial statements at the inception of the arrangement. In the fund financial statements, a liability relating to a capital lease is only reported when payment is due.

**Budgetary Process**

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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**NOTE 2. DEPOSITS**

The Memphis and Shelby County Community Services Agency's bank accounts are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The Memphis and Shelby County Community Services Agency also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2002. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**NOTE 3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Equipment	\$ 370,430.49	\$ 135,506.57	\$ 168,477.89	\$ 337,459.17
Less accumulated depreciation	<u>(295,392.37)</u>	<u>(35,032.76)</u>	<u>(168,477.89)</u>	<u>(161,947.24)</u>
Total capital assets, net of depreciation	\$ <u>75,038.12</u>	\$ <u>100,473.81</u>	\$ <u>-</u>	\$ <u>175,511.93</u>

**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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Depreciation expense was charged to the CSA programs as follows:

<u>Program</u>	<u>Amount</u>
Children and Family Services	\$ 16,196.62
Family Support Services	16,196.62
TennCare Transportation	<u>2,639.52</u>
Total depreciation expense	\$ <u>35,032.76</u>

**NOTE 4. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ 132,561.93	\$ 187,499.55	\$ 167,524.29	\$ 152,537.19
Capital leases	<u>35,592.78</u>	<u>92,260.00</u>	<u>16,715.83</u>	<u>111,136.95</u>
Total long-term liabilities	\$ <u>168,154.71</u>	\$ <u>279,759.55</u>	\$ <u>184,240.12</u>	\$ <u>263,674.14</u>

**NOTE 5. OPERATING LEASE**

The agency leases office space to carry out its activities and to administer the various grant programs. Total expenditures under the operating lease for space was \$253,022.04 for the year ended June 30, 2002. The lease was cancelable at the lessee's option.

**NOTE 6. CAPITAL LEASES**

The agency has certain lease agreements in effect that are considered capital leases. These agreements have ending dates ranging from September 8, 2004, to February 28, 2007, and imputed interest rates ranging from 5.642% to 9.5%. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at June 30, 2002.

**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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Year Ending <u>June 30</u>	
2003	\$ 35,551.44
2004	35,551.44
2005	25,301.44
2006	23,251.44
2007	<u>13,545.27</u>
Total minimum payments required	133,201.03
Less amounts representing interest	<u>22,064.08</u>
Present value of net minimum lease payments	<u>\$ 111,136.95</u>

The total value of equipment capitalized under these lease agreements was \$145,738.26 at June 30, 2002. The value at June 30, 2002, net of depreciation, is \$106,207.91.

**NOTE 7. DEFINED BENEFIT PENSION PLAN**

**Plan Description**

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits, as well as annual cost-of-living adjustments, to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, 500 Deaderick Street, Nashville, Tennessee 37243-0230, or the report can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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**Funding Policy**

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. The agency is required to contribute an actuarially determined rate; for the year ended June 30, 2002, the rate was 7.5% of annual covered payroll. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

**Annual Pension Cost**

The agency's annual pension cost of \$217,180 for the year ended June 30, 2002, was equal to the agency's required and actual contributions.

The required contribution for the year ended June 30, 2002, was determined as part of the July 1, 1999, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's most recent benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period. The agency's unfunded actuarial accrued liability is being amortized as a level-dollar amount of projected payroll on a closed basis. The remaining amortization period at July 1, 1999, was 24 years.

**Three-Year Trend Information**

<u>Fiscal Year Ended</u>		<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>		<u>Net Pension Obligation</u>
June 30, 2002	\$	217,180	100%	\$	—
June 30, 2001	\$	206,799	100%	\$	—
June 30, 2000	\$	205,761	100%	\$	—

**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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**NOTE 8. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible agency retirees. This benefit is provided and administered by the State of Tennessee. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. Note 2 includes information to obtain the report.

**NOTE 9. CONTINGENCIES**

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$149,513.51 at June 30, 2002.

**NOTE 10. RISK MANAGEMENT**

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

**Commercial Coverage**

The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**State of Tennessee's Claims Award Fund**

The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole.

**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. As a participant in the Claims Award Fund, the agency is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*.

**Health Coverage**

The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee or John Deere. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee and John Deere.

**NOTE 11. RELATED-PARTY TRANSACTIONS**

The following related-party transactions occurred during the year ended June 30, 2002:

- The Department of Children's Services (DCS) Shelby County Regional Administrator served on the board as the DCS Commissioner's designee, as provided by state law. The Shelby Regional Administrator can vote at board

**Memphis and Shelby County Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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meetings but also can authorize transactions to be paid by the CSA. DCS is the primary funding source of the CSA, providing over \$6 million in revenue. The DCS Commissioner approves the Memphis and Shelby County CSA's board of director's appointment of the agency's Executive Director.

**NOTE 12. NEW ACCOUNTING PRONOUNCEMENTS**

The Memphis and Shelby County Community Services Agency has implemented the provisions of Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. These statements establish new financial reporting requirements and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The State of Tennessee implemented these statements, as required, for the year ended June 30, 2002. As a component unit of the state, the Memphis and Shelby County Community Services Agency has also implemented the statements for the year ended June 30, 2002.



**Memphis and Shelby County Community Services Agency**  
**Required Supplementary Information**  
**Schedule of Pension Funding Progress**

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Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2001	\$2,253,378	\$2,473,176	\$219,798	91.11%	\$2,658,436	8.27%
July 1, 1999	\$1,561,486	\$1,761,861	\$200,375	88.63%	\$2,396,860	8.36%
June 30, 1997	\$ 960,055	\$1,164,726	\$204,671	82.43%	\$2,316,785	8.83%

Changes in Actuarial Assumptions

An actuarial valuation was performed as of July 1, 2001, to establish contribution rates as of July 1, 2002. The July 1, 1999, actuarial valuation established contribution rates for the year ended June 30, 2002. Significant actuarial assumptions used in both valuations included a rate of return on investment of present and future assets of 7.5% a year compounded annually and a projected annual increase in post-retirement benefits of 3% annually of the retiree's most recent benefit. Projected salary increases used in the 2001 valuation were 4.75% a year compounded annually, down from 5.5% a year in the 1999 valuation (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries). The 2001 valuation projected a 3.5% annual increase in the social security wage base, down from 4.5% in the 1999 valuation.

**Supplementary Information**  
**Memphis and Shelby County Community Services Agency**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2002**

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget - Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Sources of Financial Resources:</b>				
Fund Balance, July 1				
Amount approved for expenditure	\$ -	\$ -	\$ -	
Amount not approved for expenditure	819,365.39	911,625.39	911,625.39	
<b>Revenues</b>				
Department of Children's Services	8,146,079.00	8,078,672.00	6,245,172.15	\$ (1,833,499.85)
TennCare Managed Care Organizations/ Behavioral Health Organizations	587,416.00	662,416.00	725,505.28	63,089.28
Department of Health	728,643.00	728,643.00	703,657.88	(24,985.12)
Shelby County Government	38,304.00	-	-	-
JAVA & 21st Century	-	-	70,849.00	70,849.00
Interest revenue	-	-	13,003.30	13,003.30
Total revenues	<u>9,500,442.00</u>	<u>9,469,731.00</u>	<u>7,758,187.61</u>	<u>(1,711,543.39)</u>
Total sources of financial resources	<u>10,319,807.39</u>	<u>10,381,356.39</u>	<u>8,669,813.00</u>	<u>(1,711,543.39)</u>
<b>Expenditures</b>				
Administration	418,710.00	422,910.00	334,235.13	(88,674.87)
Children and Family Services	3,722,509.00	3,684,205.00	2,743,485.42	(940,719.58)
Family Support Services	3,358,358.00	3,286,751.00	2,829,306.48	(457,444.52)
Flexible Funding	619,500.00	619,500.00	381,454.51	(238,045.49)
Emergency Residential	98,200.00	98,200.00	39,122.98	(59,077.02)
TennCare Transportation	559,013.00	634,013.00	445,621.69	(188,391.31)
Community Prevention Initiative	724,152.00	724,152.00	703,657.88	(20,494.12)
Total expenditures	<u>9,500,442.00</u>	<u>9,469,731.00</u>	<u>7,476,884.09</u>	<u>(1,992,846.91)</u>
<b>Fund Balance, June 30</b>	<b>\$ <u>819,365.39</u></b>	<b>\$ <u>911,625.39</u></b>	<b>\$ <u>1,192,928.91</u></b>	<b>\$ <u>281,303.52</u></b>

## **APPENDIX**

### **MEMPHIS AND SHELBY COUNTY COMMUNITY SERVICES AGENCY**

Susan Adams, Executive Director

#### **BOARD OF DIRECTORS**

##### Board Officers

Nancy Lawhead, Chair  
Betsy Black, Vice-Chair  
J.W. Gibson, Treasurer

##### Executive Committee Members

Betsy Black  
J.W. Gibson  
Nancy Lawhead  
Malrie Shelton

##### Other Members of the Board of Directors

Gene Holcomb  
Barbara Holden  
Sara Lewis  
William Terrell, Jr., MD  
Juanita White  
Jeune Wood